REPORT OF EXAMINATION
OF THE

SCPIE INDEMNITY COMPANY

AS OF
DECEMBER 31, 2008

Filed March 11, 2010

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Los Angeles, California
January 29, 2010

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

SCPIE INDEMNITY COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 1888 Century Park East, Los Angeles, California 90067.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2008. This examination was conducted concurrently with the Company's wholly-owned subsidiary, American Healthcare Indemnity Company, a Delaware domiciled company. Examinations of other affiliated insurance companies in The Doctors Company Group are performed by the domiciliary state departments of insurance with some reliance upon the procedures performed for The Doctors Company, an Interinsurance Exchange. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets, and a determination of liabilities as of December 31, 2008, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds, and other insurance; officers', employees', and agents' welfare, and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

SUBSEQUENT EVENTS

On September 29, 2009, the Company entered into an agreement to sell American Healthcare Specialty Insurance Company, (Arkansas), one of its subsidiaries, to the Kinsale Capital Group, Inc., pending approval by regulatory authorities. The transaction is expected to close in early 2010.

Additionally, to facilitate the above mentioned sale, the Company, and its subsidiaries, American Healthcare Specialty Company (AHSIC) and American Healthcare Indemnity Company entered into an Assumption Reinsurance and Commutation Agreement, whereby the Company assumed the net liabilities of AHSIC such that AHSIC had no liabilities reported on its financial statements as of December 31, 2009. The Assumption Reinsurance and Commutation Agreement was approved by the Insurance Departments in the States of Delaware, Arkansas, and California on October 22, 2009, December 23, 2009, and January 7, 2010, respectively.

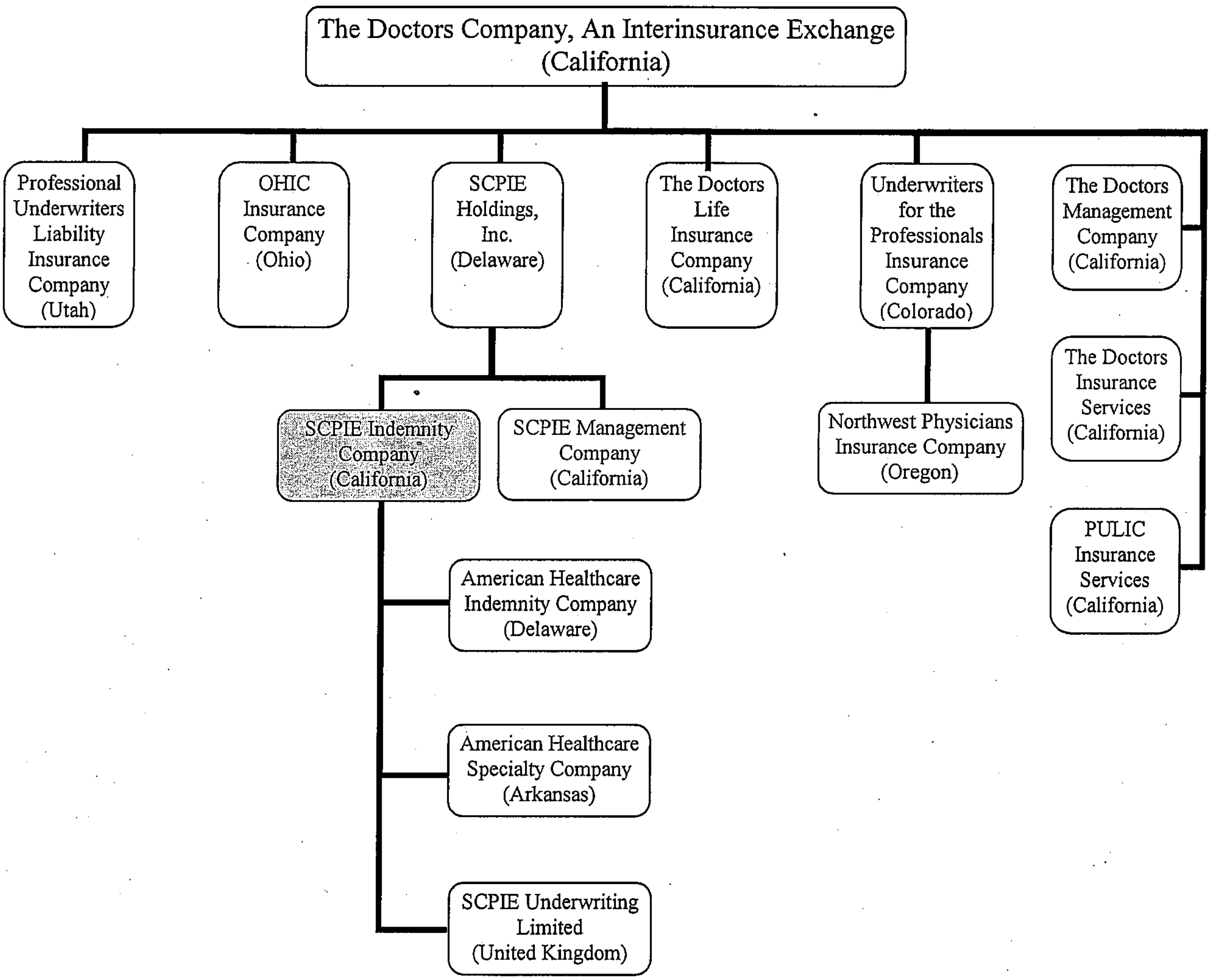
COMPANY HISTORY

The Company was incorporated in the State of California on December 31, 1993, for the purpose of conducting fire and casualty business, and commenced business on October 10, 1995. Since January 1997, the Company has been a wholly-owned subsidiary of SCPIE Holdings, Inc. (SCPIE Holdings). Effective June 30, 2008, 100% of the outstanding shares of SCPIE Holdings was purchased by The Doctors Company, an interinsurance exchange owned by its policy holders.

In 2008, the Company declared ordinary dividends of $30 million and paid $10 million of the $30 million in cash to its direct parent SCPIE Holdings. In August 2009, the Company paid the remaining $20 million dividends in cash to SCPIE Holdings.

MANAGEMENT AND CONTROL

The following organizational chart depicts the Company's relationship within the holding company system:



All ownership is 100%

Management of the Company is vested in a four-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2008 follows:

Directors

Name and Residence	Principal Business Affiliation
Richard E. Anderson, M.D. Napa, California	Chairman and Chief Executive Officer The Doctors Company, an Interinsurance Exchange
Robert D. Francis Napa, California	Chief Operating Officer The Doctors Company, an Interinsurance Exchange
Bryan Lawton, PhD Sausalito, California	Chief Governance Officer The Doctors Company, an Interinsurance Exchange
David G. Preimesberger, CPA Napa, California	Treasurer and Chief Financial Officer The Doctors Company, an Interinsurance Exchange

Principal Officers

Name	Title
Richard E. Anderson	President and Chief Executive Officer
David G. Preimesberger	Chief Financial Officer
Bryan Lawton	Secretary
Robert D Francis	Chief Operating Officer
Edward G. Marley	Vice President and Treasurer
Steve Freedman	Vice President
Paula Jenkins	Vice President

Management Agreements

Management Agreement: Effective March 31, 2001, the Company entered into a management agreement with SCPIE Management Company (SMC), an affiliated California corporation. Under the terms of the agreement, SMC provided the Company with (1) management, and support services relating to policy forms, (2) business solicitation, (3) underwriting, rating, and issuance of policies, (4) claims administration, (5) reinsurance, (6) corporate legal matters, and administrative support, and (7) the filing of reports as required by the State of California. As compensation for these services, the Company reimbursed SMC for the actual costs incurred in the performance of its duties under this agreement. The Company paid SMC $12.5 million and $14.7 million in 2008 and 2007, respectively. The agreement was approved by the California Department of Insurance (CDI) on April 18, 2001. The agreement was replaced by the management agreement discussed below with The Doctors Management Company (TDMC), effective January 1, 2009.

In late 2008, the Company became party to a management agreement with TDMC, however, no costs were charged to the Company under the management agreement in 2008. The agreement was submitted to the CDI in March 2009, and is currently being reviewed. TDMC provides the following services under the agreement: (1) management, and support services relating to policy forms, (2) business solicitation, (3) underwriting, rating, and issuance of policies, (4) claims administration, (5) reinsurance, (6) corporate legal matters, and administrative support, and (7) the filing of reports as required by the State of California. Compensation for the services provided is limited to reinbursment of actual costs allocated in accordance with Statements of Statutory Accounting Principles, No. 70.

Investment Advisory Service Agreements: Effective April 1, 1999, the Company entered into an investment advisory service agreement with Brown Brothers Harriman & Co. (BBH). Under the terms of an investment advisory service agreement, BBH managed the Company's investment portfolio through June 30, 2008 in accordance with the Company's investment guidelines. As compensation for these services, BBH was paid a fee of .10% of the total market value of the securities under management. The fee, to be paid quarterly in advance, was subject to an annual minimum of $600,000. During the examination period, the Company paid BBH approximately $732,000 in fees under the terms of this agreement.

Effective August 19, 2008, the Company appointed Income Research and Management (IRM) as an investment manager, replacing BBH, subject to the Company's investment guidelines. The fees are paid quarterly and are calculated based upon the average asset value on the last day of the month in each quarter on a sliding scale from 20 to 45 basis points dependent upon the total assets under management. The Company paid IRM $48,000 during 2008 for the services provided.

The Company also utilized the services of Blackrock Financial Management, Inc. (Blackrock) as an investment manager during the years 2008 and 2009. This agreement was terminated in December 2009. The fees were paid quarterly in arrears based upon the net asset value at the end of each calendar quarter adjusted downward from a maximum 20 basis points. The Company paid Blackrock approximately $48,000 for services provided in 2008.

Tax Allocation Agreement: Effective July, 1, 2008, the Company entered into a Joinder Agreement to the Tax allocation Agreement by and among The Doctors Company (TDC) and its affiliates. Allocation of taxes is based upon separate return calculations with inter-company tax balances normally settled in the quarter subsequent to the filing of the consolidated return. The agreement was approved by the CDI on October 23, 2007.

TERRITORY AND PLAN OF OPERATION

The Company is licensed as a multiple line fire and casualty insurer in California. The Company is primarily a direct writer of professional liability insurance for physicians, oral, and maxillofacial surgeons, physician medical groups, and clinics, hospitals, managed care organizations, and other providers in the healthcare industry.

Through year-end 2008, the professional liability coverages for sole practitioners, and medical groups were issued primarily on a claims made, and reported basis. Claims made coverage is provided for claims reported to the Company during the policy period arising from incidents that occurred at any time the insured was covered by the policy. Each policyholder, upon termination of the claims made contract, may purchase extended reporting protection, known as extended reporting coverage. This coverage is available to the policyholder in order to cover claims which arise from occurrences during the insured's coverage period, but which are first reported to the Company after the insured's coverage period, and during the term of the applicable tail coverage. Under occurrence protection, the coverage is provided for incidents that occur at any time the policy is in effect, regardless of when the claim is reported.

The Company also offers business liability and excess personal liability protection to medical groups, and clinics on an occurrence basis.

Effective January 1, 2009, the majority of the claims-made business directly written by the Company was non-renewed, and written by the Company's ultimate parent, The Doctors Company. The Company continues to write residual physicians professional liability on an occurrence basis as well as health care facilities business.

REINSURANCE

Inter-Company Pooling Agreement

The Company participated in an inter-company pooling agreement with its subsidiaries, American Healthcare Indemnity Company (AHI), a Delaware corporation, and American Healthcare Specialty Insurance Company (AHSIC), an Arkansas corporation. Under the terms of the agreement, which commenced in 1996, the Company, AHI, and AHSIC pooled their medical malpractice business. AHI and AHSIC ceded 100% of their business for the policy years 1996 and after to the Company. Prior to 2006, AHI and AHSIC each had a 5% participation interest in the pool with the remaining 90%

participation for the Company. For 2006, and after, the participation interests in the pool were modified as follows: AHSIC 15%, AHI 30%, and 55% was retained by the Company. The revised agreement was approved on February 8, 2006, by the California Department of Insurance (CDI). The Companies terminated the pooling agreement on a run-off basis effective December 31, 2008.

Assumed

In 2002, the Company concentrated on divesting its assumed reinsurance operations. In December 2002, the Company entered into a 100% quota share agreement with Rosemont Re, domiciled in Bermuda. Under the terms of the agreement, the Company ceded the majority of its assumed unearned reinsurance premiums as of June 30, 2002 for years-ended 2001 and 2002, and almost all of its assumed reinsurance premiums written after that date. Losses from the World Trade Center claims of September 11, 2001 or any earned premiums prior to June 30, 2002 are not included. As of December 31, 2008 the reserve credits ceded to Rosemont Re were approximately $28,000.

Ceded

From 2002 through 2008, the Company retained the first $2 million of losses and loss adjustment expenses per incident for physician coverage up to $20 million. In 2002 and 2003, the Company had additional coverage for approximately 92% of losses in excess of $20 million up to $50 million.

Following is a schedule of the principal ceded reinsurance contracts in force as of December 31, 2008:

Type of Contract	Reinsurer(s) Name	Company's Retention	Reinsurer's Maximum Limits
	Excess of Loss		
First Layer	65.00% Various Lloyd's of London Syndicates 35.00% Hannover Ruckverschrungs	$ 2,000,000	$3,000,000 xs $2,000,000
Second Layer	70.00% Various Lloyd's of London Syndicates 30.00% Hannover Ruckverschrungs	$ 5,000,000	$5,000,000 xs $5,000,000
Third Layer	85.00% Various Lloyd's of London Syndicates 15.00% Hannover Ruckverschrungs	$10,000,000	$10,000,000 xs $10,000,000

As of December 31, 2008, total reinsurance recoverables, for all ceded reinsurance was $123 million or 61% of surplus as regards policyholders. $114 million of the reinsurance recoverables were from the Company's subsidiaries.

Beginning in August 2008, the Company entered into a 100% quota share cession of its ancillary programs (Managed Care Errors, and Omissions, Directors, and Officers Insurance Organization Liability, Employment Practices Liability, Directors, and Officers Liability, and SCPIE Best Defense (legal expense, fines, and penalties reimbursement)) to Lloyds of London. The program is administered by NAS Insurance Services. Direct premiums ceded during 2008 and 2009 were approximately $381,000 and $1,000,000, respectively

This treaty was terminated, effective January 1, 2010. The California Code of Regulations, Title 10, Chapter 5, Subchapter 3, Article 3, 2303.15(b) requires that domestic insurers retain at least 10% of direct premium written per line of business unless an application for a lesser percentage is submitted and approved by the CDI. The Company was not in compliance with Title 10, Section 2303.15(b). It is recommended that the Company adhere to all regulations and laws prior to executing any reinsurance agreements.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2008

Underwriting and Investment Exhibit for the Year Ended December 31, 2008

Reconciliation of Surplus as Regards Policyholders
from December 31, 2006 through December 31, 2008

Statement of Financial Condition
as of December 31, 2008

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 355,887,645	$	$ 355,887,645	
Preferred stocks	2,607,230		2,607,230	
Common stocks	72,639,334		72,639,334	
Cash and short-term investments	30,612,099		30,612,099	
Aggregate write-ins for invested assets	14,813		14,813	
Investment income due and accrued	4,287,822		4,287,822	
Premiums and agents' balances in course of collection	4,693,181	8,656	4,684,525	
Premiums, agents' balances and installments booked but deferred and not yet due	332,233		332,233	
Amounts recoverable from reinsurers	397,759		397,759	
Funds held by or deposited with reinsured companies	86,385		86,385	
Other amounts receivable under reinsurance contracts	289,060		289,060	
Net deferred tax asset	15,647,184	11,983,104	3,664,080	
Receivable from parent, subsidiaries and affiliates	6,304,136		6,304,136	
Total assets	$ 493,798,881	$ 11,991,760	$ 481,807,121	

Liabilities, Surplus and Other Funds			Notes
Losses		$ 167,242,516	(1)
Loss adjustment expenses		73,339,823	(1)
Commissions payable, contingent commissions and other similar charges		1,480,826	
Other expenses		160,571	
Taxes, licenses and fees		31,639	
Current federal and foreign income taxes		683	
Unearned premiums		8,968,719	
Advance premium		1,803,791	
Dividends declared and unpaid: Stockholders		20,000,000	
Ceded reinsurance premiums payable		(509,735)	
Amounts withheld or retained by company for account of others		1,017,800	
Remittances and items not allocated		1,029,720	
Provision for reinsurance		168,992	
Payable to parent, subsidiaries and affiliates		6,534,096	
Aggregate write-ins for liabilities		17,901	
Total liabilities		281,287,342	
Common capital stock	$ 2,600,000		
Gross paid-in and contributed surplus	65,977,371		
Unassigned funds (surplus)	131,942,408		
Surplus as regards policyholders		200,519,779	
Total liabilities, surplus and other funds		$ 481,807,121	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2008

Statement of Income

Underwriting Income		
Premiums earned		$ 60,874,699
Deductions:		
Losses incurred	$ 22,066,168	
Loss expense incurred	16,121,891	
Other underwriting expenses incurred	12,523,837	
Aggregate write-ins for underwriting deductions	283,340	
Total underwriting deductions		50,995,236
Net underwriting gain		9,879,463
Investment Income		
Net investment income earned	$ 12,877,732	
Net realized capital gains	2,195,983	
Net investment gain		15,073,715
Other Income		
Aggregate write in for miscellaneous income	$ (31,559)	
Total other loss		(31,559)
Net income before federal income taxes		24,921,619
Federal income taxes incurred		533,703
Net Income		$ 24,387,916

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2007		$ 195,787,195
Net income	$ 24,387,916	
Change in net unrealized capital gains	16,767,751	
Change in net unrealized foreign exchange capital loss	(320,935)	
Change in deferred income tax	(12,507,273)	
Change in nonadmitted assets	6,450,669	
Change in provision for reinsurance	(45,544)	
Dividends to stockholders	(30,000,000)	
Change in surplus as regards policyholders		4,732,584
Surplus as regards policyholders, December 31, 2008		$ 200,519,779

Reconciliation of Surplus as Regards Policyholders
from December 31, 2006 through December 31, 2008

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2006, per Examination			$164,414,176
Net Income	$56,296,221	$	
Change in net unrealized capital gain	18,171,584		
Change in net unrealized foreign exchange capital loss		299,171	
Change in deferred income tax		24,540,313	
Change in nonadmitted assets	16,178,772		
Change in provision for reinsurance	298,510		
Dividends to stockholders		30,000,000	
Totals	$90,945,087	$ 54,839,484	
Net increase in surplus as regards policyholders for the examination			36,105,603
Surplus as regards policyholders, December 31, 2008, per Examination			$200,519,779

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based upon a review conducted by a Casualty Actuary from the California Department of Insurance, the Company's reserves for losses and loss adjustment expenses as of December 31, 2008 were found to be reasonably stated and have been accepted for the purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Reinsurance - Ceded (Page 8): It is recommended that the Company adhere to all regulations and laws prior to executing any new reinsurance agreements.

Previous Report of Examination

Management and Control (Page 5): It was recommended that the Company submit its tax allocation agreement to the California Department of Insurance for approval in compliance with California Insurance Code Section 1215.5(b)(4). The Company entered into a tax allocation agreement with The Doctors Company, its ultimate parent. The agreement was approved on October 23, 2007.

Accounts and Records (Page 7): It was recommended that the Company properly offset the net deferred tax asset and liability prior to annual statement reporting in accordance with Statements of Statutory Accounting Principles (SSAP) No.10, Paragraph 7. The Company has complied with this recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Constance J. Korte, CFE
Examiner-In-Charge
Department of Insurance
State of California